TECHNICAL REPORT

Survey of West Africa Financial and Monetary Systems

Support to the Sahel and West Africa Regional Programs Project

SUBMITTED TO
USAID, West Africa Regional Program

UNDER CONTRACT NO.
PCE-I-09-98-00016-00

SUBMITTED BY
Nathan Associates Inc.
Arlington, Virginia

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Introduction

One of the persistent challenges of development is the financing of investments necessary to spur economic growth. In West Africa, as elsewhere throughout sub-Saharan Africa, development assistance vastly exceeds foreign direct investment in terms of capital inflows. In the long run, given the declines seen in the flows of development assistance,[1] it will be in countries' interest to stimulate domestic savings in order to finance investment to a far greater extent from locally derived sources of capital. In order to do this, financial sectors must be capable of attracting savings and mobilizing them for productive investment. Yet despite great strides made in regionalization and regulatory reform, Africa's financial sector is still in its infancy. To rise to the challenge, Africa's financial sector needs an appropriate legal and regulatory framework, solvent and liquid financial institutions, a diversity of financial institutions, adequate financial databases, a modern technology network, and competent specialists to manage these (Popiel 1994).

Most of these elements are still underdeveloped in West Africa. Government intervention in the financial sector has been widespread. Gross domestic savings in sub-Saharan Africa represent just 14 percent of GDP, the lowest among low and middle income country groupings.

Table 1. Selected Economic Indicators

	Gross Domestic Investment		Gross Domestic Savings	
	1990	1999	1990	1999
Low & middle income countries	***26***	***24***	***26***	***25***
East Asia & Pacific	35	33	35	37
Europe & Central Asia	28	20	26	23
Latin America & Caribbean	19	21	22	20
Middle East & North Africa	24	22	22	19
South Asia	23	22	19	19
Sub-Saharan Africa	15	17	16	14

SOURCE: World Bank, *World Development Indicators 2000/2001,* Annex Table 14

A large part of the savings which have been attracted to commercial banks are redirected to finance the deficits of governments or public enterprises. A 1997 World Bank review of bank restructuring operations in sub-Saharan Africa found that "interventions to break up or privatize dominant state-owned banks are, in some cases, still going on, years after initial actions were agreed upon with local authorities" (Deschamps and Bonnardeaux 1997). Commercial banks still dominate

[1] Official development assistance to sub-Saharan Africa has fallen from nearly $30 per capita in 1988 to $20 per capita in 1999, according to World Bank *World Development Indicators.*

the sector. Investment banks and non-bank financial institutions (NBFI) are quite underdeveloped. Informal markets supply much of the credit, at a high cost, to small and medium scale customers. Rural sectors are underserved, compared with urban areas. The range of commercial bank services are underdeveloped and there is a lack of competition among them. While short-term commercial credit needs are supplied to some extent, a sector capable of providing long-term development capital does not yet flourish in the region. Microfinance institutions (MFIs), in some countries, are helping to compensate for the uneven service penetration of the commercial banks.

In addition to banking institutions, a developed financial sector will also include a variety of non-bank financial institutions (NBFIs). Knight (1998) argues that just as banks help to insure market discipline by conducting credit risk analyses of private clients, so other markets and institutions can exercise discipline over banks, thereby strengthening financial system soundness. In an advanced economy, these include government securities markets, spot and forward foreign exchange markets, stock markets, bond markets, secondary markets for mortgages and insurance, forward markets for equities and bonds, etc. Banks compete, therefore, with these other institutions as both borrowers and lenders, and the depth of financial information available helps to stabilize the financial sector overall. While West Africa is making progress in developing these NBFIs, most of these are still quite unknown.

This paper sets out some of the basic characteristics of central banking and monetary regimes, commercial banking, and (where available) micro- and non-bank financial institutions in the fifteen West African countries belonging to the Economic Community of West African States. It is accompanied by a country-specific dataset of financial and monetary variables, organized as an Excel spreadsheet. The purpose of these two products is to provide USAID’s West Africa Regional Programs office with a set of baseline information from which to measure progress in this sector.

Economic Community of West African States

The Economic Community of West African States (ECOWAS) includes fifteen countries (Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo). Within ECOWAS, most of the francophone countries (except Guinea) belong to the West Africa Economic and Monetary Union (WAEMU, or UEMOA in French), a customs union, and the West Africa Monetary Union (WAMU), which is responsible for joint management of a common currency zone. WAMU countries share a common currency, the CFA franc, which used to be linked by a fixed rate of exchange (100:1) to the French franc, and is now pegged to the euro. In 2000 the five anglophone countries of West Africa, plus Guinea, declared their intention to create a second monetary zone with their own common currency, under the aegis of ECOWAS. Only Cape Verde remains outside both of these schemes.

Table 2. Regional Economic Groupings

ECOWAS (15)	WAMU/WAEMU (8)	Accra Declaration (6)
Benin	√	
Burkina Faso	√	
Cape Verde		
Côte d'Ivoire	√	
Gambia		√
Ghana		√
Guinea		√
Guinea-Bissau	√	
Liberia		√
Mali	√	
Niger	√	
Nigeria		√
Senegal	√	
Sierra Leone		√
Togo	√	

These two currency regimes are explained below. Country-specific information on banking, microfinance, and non-bank financial institutions is presented within each currency group.

West Africa Economic and Monetary Union

CENTRAL BANKING AND MONETARY REGIME

The West Africa Monetary Union (WAMU), a regional currency zone, was established in 1948. A distinct institution, the West Africa Economic and Monetary Union (WAEMU), was established in 1994 to create a customs union in the same zone. WAEMU's Common External Tariff went into effect in January 2000. It is expected that WAMU will eventually be folded into WAEMU, but some disagreements remain regarding the details of that process. There are eight member states of WAMU/WAEMU (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo).[2] These countries comprise the western CFA franc (CFAF) zone, a common currency whose parity was fixed at a rate of 100 CFAF to the French franc as of January 1994, and is now pegged to the euro.[3,4]

There are differing opinions regarding the potential impact of the euro linkage on WAEMU countries (Irving, no date). On the optimistic side, there is a sense that the effect of European integration will be positive on European economic growth and result in an increased demand for goods from Africa. Some analysts believe that more facile access to investment funds at lower interest rates from Europe may ensue. More pessimistically, some fear that the growth effects of European integration will be minimal and may disrupt business with external partners. Of greater concern is the fear that a possibly stronger euro could have negative competitiveness implications for

[2] A parallel Central African Economic and Monetary Union encompasses Cameroon, the Central African Republic, Chad, Congo-Brazzaville, Equatorial Guinea, and Gabon, governed by the *Banque des États de l'Afrique Centrale (BEAC)*. This group also uses a CFA Franc, though it is legally separate from the CFAF used in West Africa. In 1996 the CAEMU formed the Central African Economic and Monetary Community (CEMAC), similar to WAEMU.

[3] The parity of the CFA Franc, relative to the French Franc, has only been revised once in the 52-year history of the unions, from a rate of 50:1 to 100:1. This 50 percent devaluation took place in January 1994. It is not the purpose of this paper to review the history or impact of this one-time devaluation.

[4] The fixed parity between the euro and the CFA franc is based on the official, fixed conversion rate for the French franc and the euro set on January 1, 1999 (FF6.55957 = EURO1). As a result, the value of the CFA franc is now fixed against all 11 euro-zone country currencies. Since the CFA100 = FF1 exchange rate has remained unchanged, the CFA franc-euro exchange rate is simply CFA665.957 = EURO1. The CFA franc is actually pegged to the euro in de facto terms from January 1999. The peg will become official in 2002 when France and the other euro-zone countries must completely withdraw their national currencies from circulation. That linkage will be maintained through the French Treasury, not the Bank of France (which is now joined to the European System of Central Banks; see Dearden 1999). There is some concern that at this peg, the CFAF is in danger again of over-valuation (Africa Analysis 2001), although a recent IMF assessment (2001, Country Report No. 01/193) found that the competitiveness of the CFAF zone, based on the real exchange rate, has only declined by 9 percent since the 1994 devaluation (IMF 2001, p. 9).

the CFA franc zone countries, the value of whose currencies will raise with the euro (Hadjimichael and Galy 1997).

There is one central bank for the region, the Banque Centrale des États de l'Afrique de l'Ouest (BCEAO), which is located in Dakar, Senegal. BCEAO holds the monetary reserves of member states and is required to maintain at least 65 percent of its foreign reserves at the French Treasury. There is also a foreign reserve cover ratio which requires BCEAO to hold foreign exchange equivalent to 20 percent of its short-term liabilities with the Treasury. In exchange, France guarantees the convertibility of the CFA franc (within the franc zone; since 1993, the CFAF has not been convertible outside the zone) and participates in policy decision-making. The BCEAO issues currency notes and regulates credit expansion throughout the region. It also controls four negotiable instruments, in addition to government treasury bills (*bons du Trésor*). These are

- Commercial paper (billets de trésorerie),
- Financial institution notes (bons des établissements financiers, BEFIs),
- Regional financial institution notes (bons des institutions financières régionales, BIFRs), and
- Certificates of deposit (CDs).

Banks are the largest investors in these instruments, followed by insurance companies, pension funds, and corporate entities.

BCEAO sets monetary policy for WAMU members by creating specific money and credit targets for each country. Since October 1993, the bank has accomplished this using numerous indirect instruments including interest rates (a repurchase rate, a discount rate, and a special rate for direct borrowing by the national treasuries) to regulate bank liquidity, the liquidity auction, and a reserve requirement. Discount rates spiked up sharply following the 1994 devaluation (to 14.5 percent), but were lowered to 7.5 percent by December 1995 and 6 percent by September 1997. In January 1999 (following the re-pegging of the CFAF to the Euro), the discount rate was lowered to 5.75 percent, but in June 2000 it was raised again to 6.5 percent in response to the rapid growth of credit in the zone. Regional money market rates have mirrored the discount rate and are about 5 percent. Bank reserve requirements were adjusted on August 16 and September 16 2000 from a harmonized level of 3 percent for all member states to 5 percent for Côte d'Ivoire and Niger and 9 percent for Benin and Senegal. Despite downward revisions in European rates and a slowdown in economic activity in West Africa, BCEAO monetary policy remains virtually unchanged since mid-2000.

Two monetary rules exist to prevent excessive recourse to central bank financing of budget deficits. First, government credit is restricted to 20 percent of fiscal revenues of the previous year. Second, gross foreign assets for the central bank must be maintained above 20 percent of sight liabilities (notes and coins, sight deposits of banks, financial institutions and the treasury, and foreign currency liabilities). Member states may use pooled reserves in counterpart of local currency, such that a fiscal imbalance in one country, unless funded by other members of the pool, can result in a decline of the bank's foreign assets. During periods of adverse terms of trade, the CFAF zone's reserves were adversely impacted, suggesting that credit creation and adherence to the BCEAO's fiscal rules must be monitored if crises are to be avoided in the future (Williams, Polius, and Hazel

2001). Access to pooled reserves may also need to be restricted in order to promote greater fiscal discipline. Government borrowing from the BCEAO will be eliminated at the end of 2001 in favor of public bond flotation in order to avoid central bank financing of public budgets, thus increasing fiscal discipline (Endo 2000, IMF 2001).

COMMERCIAL BANKING

At the end of 2000, there were 59 licensed banks and 25 financial institutions in the West African Monetary and Economic Union. Eight commercial groups dominate the system:

- Companies affiliated with *Société Générale*, in Senegal and Côte d'Ivoire
- Companies affiliated with the *Banque Nationale de Paris*, in Burkina Faso, Côte d'Ivoire, Mali, Senegal, and Togo
- Companies affiliated with *Crédit Lyonnais*, in Côte d'Ivoire and Senegal
- Branches of Citibank-NA, installed in Côte d'Ivoire and Senegal
- Banks from the Bank of Africa group, in Benin, Burkina Faso, Côte d'Ivoire, Mali, and Niger
- The Ecobank group, present in fourteen countries in the region, including both anglophone (Ghana, Liberia, Nigeria, Sierra Leone) and francophone (Benin, Burkina Faso, Cameroon, Côte d'Ivoire, Guinea, Mali, Mauritania, Niger, Senegal, Togo) countries
- Banks created in partnership with Libya, in Burkina Faso, Mali, Niger, and Togo
- One bank affiliated with the Financial B.C. group in Benin

The regional Banking Commission (*Commission Bancaire*), launched in 1990 under the BCEAO and headquartered in Abidjan, is responsible for banking regulation and supervision within WAMU (BCEAO 2000). The commission conducts on-site inspections and analyses of monthly statistics for all registered banks and financial institutions. The commission has the authority to enforce these ratios by means of sanctions including intensified monitoring or disciplinary actions, although its capacity to monitor macroeconomic factors and conduct on-site bank inspections has been reduced in recent years. The Ministries of Finance in the countries are responsible for implementing the decisions of the Banking Commission. The evolution of regulatory and institutional reforms in the WAMU financial and banking sectors is summarized in Table 3.

Table 3. Recent Regional Regulatory and Institutional Reforms

Year	Reform
1992	The Inter-African Insurance Markets Association (*la Conférence Inter-africaine des Marchés d'Assurances – CIMA*) was established.
1993	The first BOAD 10-year bond issue was launched.
1994	WAEMU was created.
1994	CFAF was devalued from 50 CFAF = 1 French franc to 100 CFAF = 1 French franc.
1995	The CIMA code was promulgated.
1995	The Organization for Commercial Code Harmonization (*l'Organisation pour l'Harmonisation du Droit des Affaires en Afrique – OHADA*) was established.
1995	The Inter-African Social Security Conference (*la Conférence Inter-africaine de la Prévoyance Sociale – CIPRES*) became operational (the treaty was signed in 1993 and became effective in 1995).
1996	Negotiable instruments were introduced.
1996	Treasury bills (*Bons du Trésor*) were introduced, and open market operations began.
1996	The *Conseil Régional* was established.
1996	Preliminary work for the adoption of a single accounting system referred to as "West African Accounting System" (*SYSCOA*) was done.
1997	Directives regulating the primary and secondary markets were issued.
1998	The regional stock exchange (*la Bourse Régionale des Valeurs Mobilières – BRVM*) and the central depository were established.
1998	The Europe Union recognized the CFA arrangement.
1999	Adoption of regional Convergence, Stability, Growth, and Solidarity Pact by WAEMU Heads of State.

SOURCE:: Through 1998 – Endo (2000), p. 12.; after 1998– IMF (2001) Country Report No. 01/193)

In July 1999, West Africa Monetary Union Council of Ministers adopted a revised set of prudential ratios more in line with the Basel Committee on Banking Supervision standards for banking supervision (see Table 4).[5] These new regulations became effective in January 2000.

[5] The Basel Committee on Banking Supervision, established by the central-bank Governors of the Group of Ten countries at the end of 1974, meets regularly four times a year. The Committee's Secretariat is provided by the Bank for International Settlements in Basel. The Committee does not possess any formal supranational supervisory authority, and its conclusions do not have legal force. Rather, the Committee formulates broad supervisory standards and guidelines and recommends statements of best practice in the expectation that individual authorities will take steps to implement them through detailed arrangements which are best suited to their own national systems. Over the past few years, the Committee has moved more aggressively to promote sound supervisory standards worldwide. A new Basel Capital Accord has just been formally proposed by the committee. The new framework intends to improve financial system safety and soundness by placing more emphasis on banks' own internal control and management, the supervisory review process, and market discipline. For more information, see http://www.bis.org/bcbs/aboutbcbs.htm.

Table 4. Banking Sector Prudential Norms—Old and New Thresholds

	Old Threshold (%, unless otherwise indicated)	New Threshold (%, unless otherwise indicated)
Minimum capital requirement	CFAF 1 billion (commercial bank)	unchanged
	CFAF 300 million (NBFI)	unchanged
Minimum capital adequacy ratio	4	8
Minimum requirement for liquidity ratio	60	75
Division of risk		
▪ Individual norm limitation (% capital base)	100	75
▪ Global limit for loans representing more than 25% of capital base	10x capital base	8x capital base
Minimum coverage of medium/long-term liabilities by medium/long-term assets	75	75
Insider lending (as % total lending)	20	20
Portfolio risk structure (% "low risk" loans)	60	60
Maximum ratio of fixed assets and equity investment to capital	100	100
Maximum ratio of off-balance sheet fixed assets to capital	15	15

Source: IMF (2000), *Senegal: Recent Economic Developments*, IMF Country Report No. 00/91, p. 35.

Compliance with these new regulations has not been strong. In 2001, 17 banks out of 59, representing more than 20 percent of the zone's deposits, had not complied with minimum capital requirements, and only 28 banks, or half of total deposits, were in line with the capital adequacy rule. Risk guidelines in which a single client cannot borrow more than 75 percent of a bank's own funds are in violation at 43 banks, representing 70 percent of deposits. At end-2000, 39 banks (over 75 percent of deposits) were not in compliance with the requirement that 75 percent of medium- and long-term assets by covered by resources of similar maturity. These structural vulnerabilities have raised serious concerns with observers from international financial institutions. In 2000, the share of non-performing loans in banks' portfolios rose to 7.5 percent (net of provisions; 19.5 percent before provisions) in 2000, from 6.4 percent in 1999 (IMF 2001). Most of these are due to overdue crop credits, requiring structural changes in the cash cropping systems of several WAEMU member countries.

The present inter-bank payment system in West Africa is slow and cumbersome, and thus imposes huge financial and economic costs on businesses. The World Bank estimates that most transactions are still carried out in cash, with less than 7 percent of the region's active population having a bank account. The inter-bank market in WAMU is almost non-existent. Over-liquid banks, especially in Benin, Burkina Faso, and Mali, have few opportunities for investing their funds. This situation is due partly to an underdeveloped telecommunications sector, although on-going privatizations should help remedy this constraint. The World Bank approved a regional project in late 2000 that will introduce a set of regional payment mechanisms in WAMU countries that will meet international standards and reinforce confidence in WAMU/WAEMU.

REGIONAL FINANCIAL MARKETS

The conversion of the Abidjan Stock Exchange into a regional stock exchange, the *Bourse régionale des valeurs mobilières (BRVM),* took place in September 1998. The Bourse will help improve capital markets by acquiring local savings and reducing capital outflows to Europe. The exchange is headquartered in Côte d'Ivoire, and all WAEMU states have trading floors. Activity is overseen by the Regional Securities Commission (*Conseil Régional de l'Epargne Publique et des Marchés Financiers, CREPMF)*, created in 1997. Trades are handled exclusively by brokerage firms (*Sociétés de Gestion et d'Investissement, SGIs).* Of the 16 SGIs licensed by the CREPMF, 9 are Ivoirian.

The Bourse had an initial capitalization of $1.5 billion. Of the 47 companies and public entities listed on the exchange as of January 2002, only nine are *not* Ivoirian (Table 5). The poor performance of the BRVM since its opening has been blamed on the global downturn in financial markets, but may also be caused by the relative lack of liquidity of most stocks and the bureaucratic culture of the stock market. Its future performance partly depends on further privatization within WAEMU. The BRVM's five most active listings (both in value and volume terms) are shown in Table 6. Public treasury bills top both lists, while the Ivoirian *Société Générale des Banques*, Senegalese SONATEL, and Benin's Bank of Africa also figure in the top five in terms of both value and volume as well.

With the opening of the *Bourse*, a regional bond market, though still in its infancy, is beginning to take shape. The IMF reports that this market is becoming increasingly active, with a total value of listed bonds at the end of 2000 of CFAF 129 billion (compared with CFAF 40 billion in 1998). The existence of a local debt market will help private enterprises, infrastructure projects, and financial institutions raise capital locally. The International Finance Corporation is assisting with the development of a roadmap for investing in or issuing debt securities, in collaboration with the regional capital markets regulator, the Regional Council of Public Savings and Financial Markets (*Conseil Régional de l'Épargne Publique et des Marchés Financiers),* as well as the BCEAO, WAEMU's West African Development Bank (*Banque ouest-africaine de développement, BOAD*, located in Togo), the French Treasury, the IMF, the World Bank, and other private and public institutions (Endo 2000). Insurance companies account for 50-60 percent of the market, while pension funds have the second largest absorption capacity. The Regional Securities Commission is the sole regulator of the region's capital market, but the BCEAO still regulates a negotiable instruments market. No credit rating system exists in the region.

Table 5. BRVM Listings

Ivoirian Firms or Public Entities		Non-Ivoirian Firms or Public Entities
1. Abidjan Catering	21. Société Générale de Banques-CI (SGB)	1. Bank of Africa (Benin)
2. Bernabe	22. Shell-CI	2. Banque Ouest-Africaine de Développement (BOAD) (Regional, based in Togo)
3. Banque Internationale pour le Commerce et l'Industrie de Côte d'Ivoire (BICICI)	23. Société Ivoirienne de Câbles	3. Société des Brasseries de Burkina Faso (Brakina)
4. Centre d'Edition et de Diffusion Africaines (CEDA)	24. Société Ivoirienne de Coco Râpé (SICOR)	4. Société Brasseries du Mali (Bramali)
5. Compagnie Française de l'Afrique Occidentale en Côte d'Ivoire (CFAO)	25. Société Ivoirienne de Ciments et Matériaux (SICM)	5. Caisse Autonome d'Amortissement (Benin)
6. Compagnie Ivoirienne d'Electricité (CIE)	26. Société Ivoirienne d'Emballage Métallique (SIEM)	6. Société des Ciments du Togo
7. Filature, Tissage, Sacs (Filtisac)	27. Société Ivoirienne des Tabacs (SITAB)	7. Société Béninoise de Brasserie (SOBEBRA) (Benin)
8. Nei	28. Société Ivoirienne d'Oxygène et d'Acétylène (SIVOA)	8. Société des Brasseries de l'Ouest Africain (SOBOA) (Senegal)
9. Nestle-CI	29. Société Ivoirienne d'Opération Maritime (SIVOM)	9. Société Nationale de Télécommunication (Sonatel) (Senegal)
10. Palm-CI	30. Société Multinationale de Bitume (SMB)	
11. Peyrissac-CI	31. Société de Distribution d'Eau de Côte d'Ivoire (SODECI)	
12. Plantation et Huileries de Côte d'Ivoire (PHCI)	32. Société des Caoutchoucs de Grand-Béréby (SOGB)	
13. Société Abidjanaise d'Expansion Chimique (SAEC)	33. Société de Limonaderies et Brasseries d'Afrique (SOLIBRA)	
14. Société Africaine de Crédit Automobile (SAFCA)	34. Total Fina Elf	
15. SAGA-CI	35. Treasury bills	
16. Société Abidjanaise de Gérance et d'Exploitation Commerciale (SAGECO)	36. Société Ivoirienne de Trituration de Graines Oléagineuses et de Raffinage d'Huiles Végétales (TRITURAF)	
17. Société Africaine de Plantation d'Hévéas (SAPH)	37. Unilever	
18. Société Africaine de Représentations Industrielles (SARI)	38. Uniwax	
19. Société Delmas Vieljeux (SDV)		
20. Société d'Etudes et de Travaux pour l'Afrique de l'Ouest (SETAO)		

SOURCE: http://www.brvm.org/fr/documentation/societes.htm, 24 January 2002

Table 6. Five Most Active BVRM Listings

By value	Volume	Value (in CFAF)
Tresor Public 8%, 1999-2002	87,544	874,813,200
SGB, Côte d'Ivoire	73,042	768,934,485
Sonatel, Senegal	15,859	331,519,280
Bank of Africa, Benin	7,415	263,769,275
SITAB, Côte d'Ivoire	2,404	97,705,920
By volume	**Volume**	**Value (in CFAF)**
Tresor Public 8%, 1999-2002	87,544	874,813,200
SGB, Côte d'Ivoire	73,042	768,934,485
Shell, Côte d'Ivoire	61,386	52,652,355
Sonatel, Senegal	15,859	331,519,280
Bank of Africa, Benin	7,415	263,769,275

Source: BRVM, *Revue Trimestrielle*, July 2001-September 2001, no. 12

In light of recent turmoil in international financial markets (1994 Mexico crisis, 1997 Asian financial crisis), the IMF has been working to establish a system for monitoring "financial soundness indicators" (FSIs) as part of a new macro-/micro-prudential analysis program in which the Fund and other institutions (e.g., the Bank for International Settlements, the European Central Bank, and the Asian Development Bank) are engaged.[6] While there is no universally accepted definition of financial soundness, broad areas to be tracked may include the following:

- Macroeconomic indicators such as exchange and interest rates, and balance of payments data
- Market-based indicators such as stock prices of financial institutions, credit spreads, and credit ratings
- Financial sector data, such as the breadth and depth of money and capital markets, and developments in and bank exposure to real estate markets
- Micro data on the health of individual banks, including capital adequacy, asset quality, management soundness, earnings, liquidity, and sensitivity to market risk[7]
- Micro data on the health of non-bank financial institutions (NBFI, e.g., finance companies, securities firms, collective investment schemes, insurance companies),

[6] See IMF (2001), "Financial Soundness Indicators: Policy Paper."

[7] Quantitative measures for all but "management soundness" should be available from the banks themselves. Management soundness is a qualitative variable measured through interviews and assessment by informed evaluators.

including information on ownership and investment linkages, risks associated with leveraging and diversification, and share of NBFI assets in total financial assets or GDP[8]

- Micro data on the financial health and profitability of the banking and NBFI institutions' borrowers, namely the non-financial corporate sector (e.g., falls in asset prices, increases in interest rates, slowdown in growth, cash flow adequacy, degree of corporate leveraging, corporations' foreign currency exposure, all of which can be monitored in well-functioning economies before non-performing loans are booked by the banks)
- Micro data on the financial health and profitability of households (monitored through use of household data, or through data on financial institutions' credit outstanding to the sector) and the real estate market (monitored via analysis of demand/supply and price data as well as financial institutions' exposure to the sector).

MICROFINANCE INSTITUTIONS

Microfinance institutions (MFIs) are also an important component of the financial sector in at least some West African countries. MFIs are defined by the Consultative Group to Assist the Poorest (CGAP)[9] as any organization extending financial services, either exclusively or in conjunction with non-financial services, to the poor. They became increasingly recognized in the 1980s through the success of such groups as the Grameen Bank and BRAC in Bangladesh. While much of the focus of MFIs has been with regard to micro-credit loans to the poor, savings and insurance services are also being developed in the context of MFI programs as well. While non-governmental organizations (NGOs) are typically thought of as suppliers of MFI services, other institutions, such as credit unions, cooperatives, private commercial banks, non-bank financial institutions, and even parts of state-owned banks may be involved in such service delivery today.

A World Bank inventory of MFIs in West and West Central Africa (W/WCA) identified 124 such institutions which service at least 1,000 clients and have been in existence prior to 1992, of which twenty-five were surveyed.[10] The sources of funds for the survey sample include donors (50 percent), deposits (34 percent, compared with only 22 percent in other regions of the world), commercial loans (8 percent), government (4 percent) and others (4 percent). The loan portfolio of the sample MFIs in W/WCA represents only 0.9 percent of the outstanding loan portfolio measured in all five regions surveyed. While average and median loan sizes in W/WCA MFIs are below the global averages, the average loan size as a percentage of GNP per capita is 76 percent, higher than the average for the other four regions of the world (62 percent). Another feature of note in W/WCA is the positive role of credit unions, which have been successful in reaching a greater level of outreach per institution than NGOs or banks, provide services at the most micro levels, rely almost entirely on savings mobilization for their source of funding (portending well for their long-run

[8] The Fund's *Monetary and Financial Statistics Manual* provides a framework for the collection and presentation of these data. http://www.imf.org/external/pubs/ft/mfs/manual/index.htm

[9] A consortium of twenty-nine bilateral and multilateral donor organizations. For further information, see www.cgap.org.

[10] See the Sustainable Banking for the Poor website, http://www-esd.worldbank.org/sbp/home.htm.

sustainability) rather than on donors, and are growing at a more cautious rate than the NGOs or banks in the sample.

To ensure the financial stability of MFIs in WAMU, the member country governments established a standard regulatory framework for their operation. The Regional Project for the Supervision of Savings and Loan Cooperatives, or the *Projet d'Appui à la Réglementation des Mutuelles d'Epargne et de Crédit* (PARMEC) in French, was approved in 1996. PARMEC establishes cooperative credit unions (*mutuelles d'épargne*) as an alternative to banks for savings mobilization and credit. The aim of the PARMEC regulation is to strengthen the financial management of MFIs, while encouraging the development of the microfinance sector. The law requires credit unions and savings associations to provide standardized financial statements to the BCEAO, classify their credit portfolios according to their terms, observe prudential ratios, produce annual reports, and be governed by a board of directors elected by their shareholders. Non-cooperative microfinance institutions (*non-mutuellistes*) also exist in the region, but fall outside the PARMEC regulation, both in terms of lending rate ceilings and management structure regulations.

Financial institutions in West Africa are subject to usury laws, which dictate that the interest rate charged to borrowers cannot exceed twice the discount rate of the BCEAO. In 2001, this interest rate was approximately 13 percent (twice the discount rate of 6.5 percent). Microfinance institutions, NGOs, and donor organizations persuaded policy makers to exempt microfinance institutions in order to allow them to charge higher interest rates and achieve financial sustainability. Recognizing the importance of MFIs, the WAMU Council of Ministers approved a revision of the usury law to fix a rate of 18 percent for commercial bank loans and 27 percent for lending by other financial institutions, including credit unions and microfinance institutions. Some organizations believe that 27 percent is still too low for profitable operation of these high-cost lending operations. According to the BCEAO website of January 2002, not all WAMU countries have adopted this usury law as their own.[11] Lending rates are still fixed at twice the discount rate in Togo and Guinea Bissau, and at 29.1 percent in Benin and Côte d'Ivoire.

BENIN

Commercial Banking

After the collapse of the state banking system in 1988-89, Benin's financial system was completely restructured. Failed banks were liquidated and private-sector institutions created with assistance from France and the World Bank. The new, privately owned banks include:

- *Banque Internationale du Bénin* (owned by four Nigerian banks, First Interstate Merchant Bank, First Bank of Nigeria, Union Bank of Nigeria, and Continental Merchant Bank, as well as private investors from Benin and Nigeria);
- Ecobank;

[11] www.bceao.int/internet/bcweb.nsf/pages/infin3

- Bank of Africa-Benin (owned by Proparco, the equity-financing arm of *Caisse francaise de developpement, the Banque ouest-africaine de developpement*, and the International Finance Corporation); and,
- Financial Bank (Lebanese and Swiss private interests).

Four new banks were created between 1988 and 1990 after the collapse of the banking system in the late 1980s. Since then, bank deposits and credits have rapidly increased. Between 1990 to 1997, there was a six-fold increase in bank deposits to 248.1 billion CFAF (20 percent of the GDP). Sight deposits accounted for approximately 60 percent of total deposits. Though low in the beginning, credit to the economy grew from 2.9 billion to 73.5 billion CFAF (6 percent of GDP). This reflects buoyant real sector activity. Sixty-five percent of total credit was short term, financing mainly services (45.5 percent) and trade (37.8 percent).

Since the early 1990s, savings and loans associations (SLAs) have rapidly developed, mainly in rural areas. They have made financial services available to clients who are usually excluded from the formal financial system, and thus have improved financial intermediation and monetization in rural areas. Rapid growth in their numbers has been a result of the large autonomy of local branches, increased rural revenues after the 1994 CFA franc devaluation, greater accessibility to commercial banks, and the willingness to make loans to members based on personal ties rather than creditworthiness.

Although most SLAs are small, a group of them joined to create an umbrella organization named the Federation of Rural Savings and Loan Cooperatives (FECECAM). FECECAM has become one of the largest credit union networks in Africa and has benefited from foreign partner assistance. FECECAM is organized in three levels. The first level is comprised of 82 primary agencies (CLCAMs) that mobilize savings from members and the public at large and, in turn, extends credit to members. The second level is comprised of 7 regional units (URCLCAMs) that provide accounting and cash flow management services to the CLCAMs. The third level, FECECAM, sets policy guidelines for the network, provides technical assistance to local and regional units, and ensures prudential supervision. FECECAM was crucial for extending credit to micro- and small enterprises, especially in rural areas. One quarter of the increase in credit to the non-government sector was contributed by FECECAM. This increase was 98.2 percent between 1994 and 1997, only 6.8 percent of GDP in 1997. FECECAM accounted for 1 percent. FECECAM is controlled by its members, not by government. However, its regulation falls under the regional PARMEC law, which was adopted by Benin in 1997.

Microfinance Institutions

One of Benin's largest MFIs is the *Fédération des Caisses d'Epargne et de Crédit Agricole Mutuel (FECECAM).* FECECAM is a large network of savings and credit cooperatives that has over 200,000 clients. With 64 local branches, many of which are located in remote areas, FECECAM has the largest outreach of any financial institution in the country. Most loans are granted to individuals. Credit committees composed of local community representatives conduct the loan analysis. Thus loan decisions are largely personalized and character-based. However, borrowers must provide some form of collateral and must have a savings account at the institution. Savings cannot be accessed until the loan is repaid in full. In 1993 FECECAM introduced group lending for female clients, the goal being to familiarize women with the savings and loans cooperatives. After women build enough savings and have taken out a few loans with support of their group, they are able to take out individual loans. A July 2000 letter of intent and memorandum of economic and financial policies by the Government of Benin to the IMF noted the sharp deterioration in FECECAM's portfolio in 1999, as a result of widespread non-performing loans, embezzlement in certain branches, inadequate internal and external audit systems, and management shortcomings.[12] As a result, donors were expected to reinforce MFI oversight capacity by the Ministry of Finance.

The *Projet d'Appui au Développement des Micro-Entreprises* (PADME) was created in 1993 by the Government of Benin with funding from the World Bank (Calmeadow 2000). The purpose of the project is to provide credit to those without access to traditional bank financing. Although the target market is broadly defined, PADME primarily serves small women traders in two urban areas, Cotonou and Porto-Novo. Both solidarity group and individual lending methodologies are employed, with the former comprising 35 percent of active clients. World Bank support of PADME ended in 1997, but the project has received additional funding from USAID for loan capital and technical assistance. Despite its funding difficulties, PADME has been one of the most profitable MFIs in Africa because of its efficiency and tight operations. The number of borrowers tripled between December 1996 and June 1999, with loans averaging US$400 (106% of per capita GDP). As of June 1999, there was also a positive adjusted return on assets of 9.3%.

BURKINA FASO

Commercial Banking

Since the early 1990s, Burkina Faso's banking system has undergone restructuring, and the government has limited state participation in the banking sector to 25 percent. Of the three commercial banks, the *Banque internationale du Burkina Faso (BIB)* has completed its reform program; the *Banque nationale de developpement du Burkina* is in the process of liquidation; and the *Banque pour le financement du commerce et de l'industrie du Burkina (BFCIB)* has been privatized. After an earlier merger with two other banks, the government sold 34 percent of its shares in BFCIB to local private investors in 1997, and the following year sold another 51 percent to foreign investors, including the *Société Générale de Banques*, the largest French private bank. As an affiliate of the latter, the BFCIB was renamed the *Société Génerale de Banques du Burkina*. The evolution of credit activity in recent years has been driven by

- Increased competition in the banking sector, which caters to larger borrowers mainly in the manufacturing and public works sectors. The majority of the activity takes place in the countries two largest cities, Ouagadougou and Bobo Dioulasso.
- Rapid development of smaller credit unions in rural areas.

[12] http://www.imf.org/external/np/loi/2000/ben/01/index.htm

The traditional banking sector continued to strengthen in 1999. The solvency ratio improved during 1999 for 5 of the 7 banks, all of which have ratios above the current requirement of 4 percent. Five banks already attained the 8 percent ratio required by the BCEAO in 2001. Competition increased over the last two years, with the number of banks increasing from 4 to 7. This increase led to a reduction of financial intermediation margins, especially for the two banks that have a network of local branches.

The banks have expressed difficulty in intermediation activity development due to a restrictive regulatory environment created in part by the BCEAO and the preference for cash transactions. Medium- to long-term lending has been limited due to the short-term nature of bank resources and by the BCEAO prudential requirement that a minimum of 75 percent of the amount of medium- and long-term loans be covered by long-term resources. Because of this, some banks are considering the introduction of new instruments to attract long-term savings, such as the *Plans d'Épargne Logement*. Another difficulty results from the requirement that 60 percent of loans be eligible for rediscount by the BCEAO.

The regulation of mutual or cooperative savings and loans institutions is guided by the PARMEC law. This covers registered microcredit institutions which, as of 1998, had collected savings equivalent to 6.1 percent of total private deposits and provided credit equivalent to 5.8 percent of total credit to the economy. The savings and credit provided to/by these institutions have grown on average 40 percent per year since 1996. The most important microcredit institution is the *Réseau des Caisses Populaires du Burkina (RCPB).* Two-thirds of its activity is concentrated in Ouagadougou.

Microfinance Institutions

Burkina Faso was one of the first West African countries to set up a microfinance unit within its Ministry of Finance to implement the PARMEC law (World Bank 1998). The country has a considerable number and wide range of microfinance institutions with varying levels of effectiveness. The more advanced MFIs are creating a professional association. The largest group of MFIs in the country is comprised of four savings and credit institutions with a total of approximately 110,000 clients.

CÔTE D'IVOIRE

Commercial Banking

Following the 1994 devaluation of the CFA Franc, Côte d'Ivoire experienced a strong increase in the demand for money. Credit to the private sector surged with the improved business climate and the progressive easing of interest rates. Net credit to the government declined, as public finances strengthened. Côte d'Ivoire's net foreign assets status with the BCEAO, which had been in deficit before the devaluation, returned to a net positive position in 1997. However, those gains have since been reversed, and Côte d'Ivoire as of 2000 was again in a net deficit position.

The financial sector in Côte d'Ivoire remains dominated by the banking system, which comprises 15 deposit money banks with 160 branches. In addition, the sector includes 7 non-bank credit institutions and 27 insurance companies. A wide range of microcredit and local savings institutions also provide financial services to rural areas and to small and medium-sized enterprises. Côte d'Ivoire has 12 commercial banks in operation, the largest of which are the

- Société Générale de Banques en Côte d'Ivoire,
- Banque Internationale pour le Commerce et l'Industrie de la Côte d'Ivoire, and
- Societe Ivoirienne de Banques (SIB).

Three additional commercial banks have representative offices in Abidjan.

Banking supervision in Côte d'Ivoire is carried out by the regional banking commission, which supervises banks and non-bank financial institutions in the sub-region through on-site inspections and off-site analysis of monthly statistics to ensure compliance with the existing prudential regulations. Enforcement of banking commission recommendations rests with the Ministry of Economy and Finance.

Côte d'Ivoire's banking sector was significantly strengthened in the early 1990s in the context of a financial sector restructuring program that included the liquidation of several banks, the settlement of government arrears, and the recapitalization of banks. At end of 1998, the banking system totaled CFAF 1,417 billion (21 percent of GDP) in loans and CFAF 1,387 billion in deposits. Banking activity is concentrated among the five largest banks, which (excluding the *Caisse Autonome d'Amortissement-CAA*) hold close to 85 percent of the deposits and loans, with the largest two accounting for nearly half of total activity. Bad loans of the system in 1998 represented nearly 25 percent of total outstanding credit.

Information from the banking commission indicates that, as of December 31, 1999, the position of the banking system vis-a-vis the prudential regulations was as follows:

- 1 bank out of the 15 lacked the minimum equity capital (CFAF 1 billion);
- 4 banks were in violation of the risk concentration rules;
- 6 banks (holding 56 percent of deposits) were not in compliance with the liquidity ratio;
- 7 banks (holding 69 percent of deposits) had a ratio of long-term resources to long-term credits below the prudential minimum;
- No bank was in compliance with the portfolio structure ratio (which stipulates that 60 percent of a bank's lending portfolio must qualify for refinancing at the central bank-the system of accords de classement).

In past years, there has been a predominance of coffee/cocoa industry financing, leading to sectoral concentration of risk and a concentration on a few borrowers (fewer than ten). While these problems remain, there was a sharp drop in crop credit in 1999. This fall reflects, in part, a reduction in the sector's financing needs owing to lower producer prices, as well as the continued reluctance of banks to lend to certain exporters in light of non-performing crop credits. In addition, exporters increasingly arranged financing from abroad through the head offices of their external partners.

In the area of financial sector reform in June 1998, the government addressed weaknesses in the national postal and savings agency (*Société Ivoirienne de Poste et d'Épargne, SIPE*) by separating postal services from financial services. While this reform compelled the authorities to examine more closely the financial operations of the two new entities and consider how they might be more viable, the new postal savings agency (*Caisse d'Epargne et des Chèques Postaux-CECP*) has continued to accumulate sizable losses.

In collaboration with the regional banking commission, Ivoirian authorities have also been addressing the non-performing crop credits that arose in the cocoa and coffee sectors in 1997. The Ministry of Justice has urged the banks to pursue their claims and, in order to encourage the banks to follow up on favorable court decisions, has suspended the deposit that creditors are normally required to post in order to enforce court decisions on recoveries.

The sector is still facing some weaknesses, and several sources of systemic risk remain. According to the World Bank, the regulatory framework is inadequate (e.g., loan concentration ratios are inadequate, allowing a bank to have a single exposure equivalent to 100 percent of its capital), the state continues to be involved in financial institutions (e.g., it is the only shareholder in BIAO-CI and the *Caisse Autonome d'Amortissement*, holds 47 percent of the SIB, and smaller shares of several other commercial banks), the financing of agricultural exports remains problematic (particularly as export volumes of coffee and cocoa have soared in recent years), some bank portfolios are questionable, and the Postal Savings network remains weak.

Non-bank Financial Institutions

A regional stock exchange, the *Bourse régionale des valeurs mobilières (BRVM)*, began trading in September, 1998, replacing the old Abidjan stock exchange, the *Bourse des valeurs d'Abidjan (BVA)*. The African Development Bank is also headquartered in Abidjan.

Insurance operations in Côte d'Ivoire are governed by the rules of the *Conférence Interafricaine des Marchès d'Assurances (CIMA)*, which comprises most CFA zone countries and is based in Libreville, Gabon. CIMA's code of conduct closely follows French laws on insurance. Licensing and supervision of insurance companies are carried out by the *Commission Régionale de Contrôle des Assurances (CRCA)*, although the Ivoirian Ministry of Finance still has the right to refuse a license, even if approved by the CRCA. National supervisors can also make on-site inspections, or request one from the CRCA, and they are responsible for the implementation of the CRCA's decisions.

The insurance sector comprises both mutually owned and incorporated companies. At the end of 1998, they were 27 insurance companies, including 10 life insurance companies and 17 specializing in IARD (fire, accidents, and various risks). Insurance companies can be licensed to operate in either sector but not in both (as a principle of specialization—many companies, however, are related through common shareholders). There has been a sharp decline in the number of companies since the early 1990s, when more than 40 companies were active, owing to mergers or liquidations as a result of financial problems. There are no reinsurance companies in Côte d'Ivoire. Local companies must reinsure part of their exposures with two regional reinsurance organizations, CICARE and/or Afirca-Re, headquartered in Lagos.

The authorities consider that the main systemic problem of the insurance sector is the lack of liquidity of most companies, as a large part of investments are in real estate. There is evidence of intense competition in the IARD sector, especially in the automobile insurance subsector, as evidenced by low and falling premiums, which partly explains why the companies in this sector faced larger problems in meeting prudential standards. The authorities have the right to impose minimum levels of premiums, but this right is difficult to enforce and has seldom been respected.

GUINEA-BISSAU

Central Banking and Monetary Regime

The *Banco Central da Guine-Bissau (BCGB)* was the central bank until Guinea- Bissau joined WAEMU in 1997. It subsequently became an antenna of the regional central bank, the *Banque centrale des Etats de l'Afrique de l'ouest (BCEAO)*, which took over part of its assets and liabilities (with the remaining being assumed by the Treasury). Recapitalization of the Central Bank was required before the merger could take place.

Commercial Banking

The banking system was radically reformed in 1989 in view of economic liberalization and again in 1997, with Guinea-Bissau's entry into WAEMU. There are two private commercial banks, the *Banco Internacional da Guine-Bissau (BIGB)*, established in 1990, and a subsidiary of the Portuguese *Banco Totta e Acores (BTA)*, established in 1992. The first investment bank, the *Banco de Africa Occidental (BCA)*, was recently launched with capital from Portugal.

All banks, closed during an eleven month-long period of internal armed conflict, were reopened in July 1999. Repayment of loans will be difficult because most producers lost some or all of their output in 1998. Credit availability is also expected to contract significantly because of reduced savings. BIGB is being hit the hardest because it does not have a foreign source of capital, and the bank might be bailed out by BTA's Portuguese parent.

MALI

Commercial Banking

The *Banque de Développement du Mali* has survived various crises over the years and is now recovering steadily, with 20 percent equity participation by the *Banque Marocaine du Commerce Extérieur*. The *Chèques Postaux du Mali (CPM),* which existed previously as an appendix of the government treasury, went bankrupt and was re-established as a bank under the control of the BCEAO (the *Société des Chèques Postaux et de la Caisse d'Épargne, SCPCE)*. Commercial banks include the *Banque Malienne de Crédit et de Dépots*, owned jointly by the government and France's *Crédit Lyonnais*, and the highly successful Bank of Africa-Mali. In all, Mali has seven banks, including four commercial banks, an agriculture bank, and a housing bank (the former CPM, now SCPCE).

Since the CFA Franc devaluation of January 1994 the business community has criticized banks for what is seen as an over-conservative lending policy.

Like other members of WAEMU, Mali now faces the problem of diversifying credit instruments in favor of small and medium-sized enterprises, which have historically relied upon informal sources of credit. Some impetus for the sector may come from the proposed privatization of *the Banque Malienne de Crédit et de Dépots* and future listings of privatized companies on the regional stock exchange in Abidjan, the BRVM.

In 2000, there was a sharp increase in the net foreign assets of Mali's banking system. This reflected significant inflows of budgetary assistance and a reversal in declines following the increase in the intervention rate of the BCEAO to 6½ points in June 2000. Thus far, Mali's banking system has been protected from adverse effects of the cotton sector crisis[13] by a government guarantee on a significant loan to the cotton marketing parastatal, CMDT.

Microfinance Institutions

Caisses Villageoises (Village Banks) were established in Mali's Dogon country in 1996 (Ledgerwood 1998). As of December 31, 1998, there were 55 such *caisses* with $320,000 in total savings. The average outstanding deposit was $94, equivalent to 38 percent of per capita GDP. Savings for the *caisses* are mobilized by the community and are used for lending to bank members. The village credit committee makes lending decisions, and each bank sets its own interest rate based on the experiences of the village groups who had traditionally provided loans.[14] Despite high interest rates, fewer than 20 percent of village bank members used deposit accounts in 1996. Consequently, the amount of loan applications far exceeded the amount of savings. As of December 1996, the ratio of deposits to loans outstanding was 41 percent.

Non-bank Financial Institutions

Mali's non-bank financial institutions include five insurance companies, a credit institution, and a pension system comprised of a social security and pension fund for private sector employees (*Institut National de Prévoyance Sociale, INPS)* and another for civil servants (*Caisse de Retraite du Mali, CRM).* A significant number of microfinance institutions have also been supported by external donors and NGOs. The World Bank's Financial Sector Capacity Building Project is helping, *inter alia,* to restructure and restore the long-term viability of social security and pension funds, finalize the privatization of CNAR, ensure adequate supervision of insurance companies by the regional supervisory body, CIMA, and promote strategic planning by insurance companies.

NIGER

Commercial Banking

Between 1988 and 1992, four banks collapsed:

- Banque de développement de la république du Niger (BDRN), a development bank;
- Banque internationale pour le commerce et l'industrie- Niger (BICI-N), a commercial bank;

[13] Mali's cotton sector has been racked by a 50% fall in world prices for cotton fibre (A-Index, August 2001 compared with 1994/95 peaks), poor financial management, weak marketing strategies, and poor investment decisions. With its liquidity stressed, CMDT announced a low producer price at the outset of the 2000/01 season, leading to a 50% drop in farm production.

[14] Recall that *non-mutuellistes* are allowed to set their own rates, outside of the PARMEC regulation.

- Banque de crédit et de commerce (BCC), a commercial bank that the African Development Bank's Nigeria Trust Fund agreed to take over after the parent bank, the Bank of Credit and Commerce International (BCCI) collapsed;
- Banque islamique du Niger (BIN), which closed in February 1992, a commercial bank.

Two development banks, *Credit du Niger (CN)* and *Caisse nationale du credit agricole (CNCA)*, remain in operation. Other institutions, include BIAO-Niger, *Banque arabe libyenne et nigérienne pour le commerce extérieur* (rescued in March 1992 by Libya), Niger International Bank Niamey (owned by Citibank), and *Banque Massraf Faycal Al Islami-Niger*, have not.

SENEGAL

Commercial Banking

Because of non-performing loans and liquidity problems, Senegal's banking system faced a crisis in the mid-80s. A successful reform program, initiated in 1988, included the restructuring and rehabilitation of the banking sector, the reduction of the government equity share in banks to a maximum of 25 percent, the recovery of non-performing loans, and increased banking supervision. In 1991 six banks were closed, the non-performing loans were consolidated by the *Banque Centrale des Etats d'Afrique de l'Ouest (BCEAO)*, and a loan recovery institution, the *Société Nationale de Recouvrement (SNR)*, was created to streamline the recovery of non-performing loans. Despite this financial restructuring, the financial sector remained weak prior to January 1994 CFA devaluation, owing to loan repayment difficulties, low demand for credit, and a decline in bank deposits in anticipation of an exchange rate devaluation.

Following the exchange rate adjustment, the health of the banking sector improved as confidence was restored and the economic situation became more buoyant. The banking sector experienced a surge in liquidity as a result of strong capital inflows, combined with an initial weak demand for credit. After 1996, this excess liquidity dried up progressively as Senegal's economic recovery took hold and the number of creditworthy projects increased; meanwhile, the growth in deposits remained more moderate. The profitability of the banks was consequently strengthened, and the banking environment became more attractive. Indeed, a new bank was established in February 1999, the first since 1989. According to banking sources, the main difficulty encountered by the banking sector now is the absence of a prompt and impartial application of the existing legal framework by the judiciary.

The health of the banking sector improved during the period 1997-2000. The Senegalese banking system presently consists of ten commercial banks, five non-bank financial institutions, and a number of formal and informal microfinance institution. By the end of 1998, most of them observed the main prudential ratios set by the regional banking commission. However, two banks did not respect the liquidity ratio, four did not meet the ratio of coverage of medium and long term liabilities by medium and long term assets, and one large bank did not meet the insider lending ratio because a substantial share of its credits had been granted to industrial groups belonging to one of its main shareholders. The *Banque Sénégalo-Tunisienne (BST)*, the smallest and weakest bank of bank in the

Senegalese banking system, was recapitalized and privatized in March 1999. In September 1999, one financial institution was placed under temporary administration by the regional banking commission. The level of non-performing assets (net of provisioning) decreased slightly to 7.5 percent of the total credit in 1998, compared with 8.9 percent in 1997.

In 2000, there were ten commercial banks in Senegal, including three large banks, five other non-specialized banks, and two specialized banks for agriculture and housing. The three largest banks, the *Banque Internationale pour le Commerce et l'Industrie du Sénégal (BICIS),* the *Compagnie Bancaire de l'Afrique Occidentale (CBAO)* and the *Société Générale de Banques au Sénégal (SGBS),* hold approximately two-thirds of the deposits. The government continues to hold a share of more than 25 percent in three other banks, and a majority share in the agricultural bank, the *Caisse Nationale de Crédit Agricole Ssénegalais (CNCAS).*

The government of Senegal also recognizes credit unions (*mutuelles,* i.e. cooperatives that belong to their members) and local savings institutions (*caisses d'épargne et de crédit*). Regulations of these institutions is less strict. A regional initiative is being developed with respect to credit unions, while local savings institutions do not benefit from any deposit insurance mechanisms and are subject to less stringent regulations.

Senegal's banking system appears to be on much sounder footing than it was in the mid-1990s. However, its growth impact is limited by the lack of depth and insufficient supply of long-term loanable funds. Much of its banking portfolio is reasonably diversified, and exposure to the public sector is limited. Compared with Mali, where cotton loans dominate, or Côte d'Ivoire, where the exposure to the cocoa sector is high, Senegal's banking portfolio is much more diversified. This is due in part to the contraction of Senegal's groundnut sector. Moreover, with a 10-point spread in Senegal between deposit and lending interest rates, due to lack of competition in the sector, Senegal's banks are among the most profitable in WAEMU. Nevertheless, consumer confidence in Senegal's banks is not yet restored, as witnessed by a high level of deposits held abroad.

Non-bank Financial Institutions

Five NBFIs exist in Senegal, including two leasing institutions and three investment companies. Senegal also has a long tradition of large numbers of local mutual savings institutions (*tontines*), whose members contribute fixed amounts to a common fund that is then lent successively to each member.

TOGO

Commercial Banking

Before 1990, Togo's banking system was one of the best in West Africa. It was able to attract capital from and provide financial services to the entire sub-region. However, political turbulence from 1991 to 1993 led to a general strike and the closure of most banks, causing a major decline in the industry. Another major setback was observed in 1998 when an energy crisis resulted in increased credit and decreased deposits. Also during this time, a decline in public spending led to the accumulation of payments arrears in relation to domestic suppliers, limiting their ability to repay debts. Key public enterprises increased their use of bank credit. Beginning in April of 1998, these conditions led to a contraction in cash-flow, or liquidity, which led to decreased consumer confidence.

Despite considerable progress after the devaluation period from 1996 to 1997, the sector is still weak. As of 1998, none of the banks fully met the prudential ratio requirements set by the central bank. Though there is considerable variation among banks, the average net capital ratio is 5.8 percent. Five of the seven banks are not in compliance with the liquidity ratio, while three of seven are not in compliance with the solvency ratio. Also, because the judicial environment for banking is very weak, risk management is difficult. Laws fail to provide a means to punish delinquent borrowers and recover non-performing loans or the associated collateral.

Togo's financial system consists of five commercial banks, one development bank, one savings bank, four non-bank financial institutions, six insurance companies, and two public social security funds. The system is dominated by the commercial and development banks with total nominal capitalization of CFAF 18.1 billion (~US$26 million). The commercial banks account for four-fifths of total bank credit to the economy. The two largest banks account for 62 percent of the network branches in the country. Despite this, the absolute number of branches, 86 for 4.3 million people, is relatively small. Further, the majority of these branches are concentrated in bigger cities and towns.

With over 48 percent of the cumulative capital of the financial system in Togo owned by the public sector, Togo ranks as by far the highest for such participation in WAEMU. The state holds the majority share of three banks, including the two largest commercial banks and the development bank. It also holds the majority share of the largest insurance company, *Groupement Togolais d'Assurance (GTA)*, which controls 40 percent of the market. The state wholly owns many other institutions. These include

- The savings bank, Caisse d'Épargne du Togo (CET);
- One of the financial institutions, Société Nationale d'Investissement (SNI); and,
- Two public social security funds, the Caisse de Retraite du Togo (CRT), which serves civil servants, and the Caisse Nationale de Securité Sociale (CNSS).

A World Bank report in early 1999 sounded the alarm over a serious deterioration in Togo's banks, when many of them were forced to suspend activity. A Bank mission said that commercial banks, already hard hit by falling deposits and increased borrowing, had the additional problem of the accumulation of the state's arrears. It described the banks' situation as "extremely precarious". In particular, the weak state of capital flows and, at the time, stagnant exports during the year brought about a CFAF 15bn ($24m) deterioration in the banking system's net external assets. Credit to the private sector grew by CFA 7.3bn, while the state's net position worsened by a further CFAF 1.4bn during the year. The result was that the banks had to borrow heavily from the BCEAO. The two leading banks, the *Union Togolais (UTB)* and the *Banque Togolaise pour le Commerce et l'Industrie (BTCI)* fared worst. Between them, they represent 74 percent of all lending and 62.5 percent of all deposits.

Since the withdrawal of the French bank *Crédit Lyonnais* in 1994, the government is the full owner of the UTB, which is the second largest commercial bank in the country, with a capitalization of CFAF 1.5bn. The BTCI, which has assets totaling CFAF 1.7bn, is 50 percent state-owned through a number of public bodies, including the *Office Togolais des Phosphates (OTP)* and the *Caisse*

Nationale de Sécurité Sociale. The remaining 50 percent is shared by a consortium of foreign banks, most notably the *Banque Nationale de Paris*. The *Banque Internationale pour l'Afrique Occidentale au Togo (BIAO-Togo)* was 60 percent-owned by Meridien-BIAO until 1995, when it was taken over by new shareholders, including private Togolese investors and a Belgian banking group, *Belgolaise*.

Despite widespread public ownership, there has been significant development in private financial institutions in the past five years. These have included mutual savings and loan institutions and direct credit institutions to informal moneylenders. The mutual savings and loan institutions have formed a network named the *Cooperatives d'Épargne et de Crédit (COOPEC)*. Although the private sector has grown significantly the private institutions are small compared to the commercial banking sector. There are, however, signs of increased interest in collaboration on the part of commercial banks.

Non-bank Financial Institutions

According to a 1999 IMF country report, Togo's three NBFIs have relatively low volumes of activity but also must contend with a problem of non-performing loans that threatens their solvency. Both the CNSS and the CRT suffer from premium arrears and management problems. The CNSS' assets are not well invested. Liquidity difficulties of the state threatens the considerable claims of both institutions on the government, resulting in occasional difficulties in meeting their payment obligations. The country's largest company, the insurance group GTA, is also in a precarious financial situation, and is also not in conformity with the regional insurance code, CIMA.

ACCRA Declaration Countries

REGIONAL MONETARY INTEGRATION

Inspired by the macroeconomic and financial stability observed in the CFA franc zone, six ECOWAS member countries—The Gambia, Ghana, Guinea, Liberia, Nigeria, and Sierra Leone—agreed in April 2000 to create a second monetary union and common currency alongside the West African Economic and Monetary Union. The second common currency is expected to facilitate intra-regional trade and payments transactions, reduce foreign exchange speculation, and reduce foreign exchange transactions costs for its members. Notably absent from this scheme, however, is the presence of an external guarantor of the new currency's convertibility, the role played by France for WAEMU.[15]

An ECOWAS Convergence Council has been formed to plan and execute these changes. In the "Accra Declaration on a Second Monetary Zone," the six countries committed to introducing a single currency in January 2003. In early 2001 a transitional institution, the West African Monetary Institute, was established in Accra. It is expected to be functioning by the end of 2001, and will eventually become the West African Central Bank (WACB). Existing national central banks will eventually become branches of the WACB. A $100 million stabilization and cooperation fund will offer member countries a buffer in the face of temporary shocks and adverse balance of payments situations. The union hopes to merge with WAEMU and unite around one common regional currency by January 2004.

Participating countries have pledged to pursue a number of convergence criteria. These include:

- A limit of annual inflation to no more than 9 percent by 2000 and 5 percent by 2003,
- A minimum of gross external reserves to cover at least three months of imports by the end of 2000, and six months by the end of 2003,
- A ceiling on central bank financing of budget deficits to 10 percent of the previous year's tax revenue by 2000, and
- Restriction of the ratio between the budget deficit (excluding grants) and GDP to no more than 5 percent by 2000 and 4 percent by 2002.

[15] Uche (2001) argues that the ECOWAS proposal to pursue one regional currency by 2004 is a Nigerian-led attempt to remove the influence of France in WAEMU countries' policy-making. However, he recognizes that "the choice for the francophone West African countries is therefore between closer ties with France on the one hand, which has over time provided development aid, ensured currency convertibility, and guaranteed monetary stability in these francophone countries, and Nigeria on the other, which currently cannot do any of the above for itself, talk less of assisting its neighbors. Under such circumstances, it is unlikely that ECOWAS will make any real progress in the near future." (Uche 2001, pp. 4-5.)

As of July 2001, the price stability target was satisfied by four of the six countries. The limit on deficit financing was met by three countries. Only two countries satisfied the other two criteria. Masson and Pattillo (2001) suggest that the greatest economic benefits to these countries will accrue from meeting the convergence criteria, rather than focusing on the formal adoption of a single currency. Bank and non-bank financial institutions in each of the Accra Declaration countries are presented below.

THE GAMBIA

Central Banking and Monetary Regime

The Central Bank of The Gambia (CBG) was established in 1971. By the mid-1980s, The Gambia was suffering from adverse terms of trade shocks and significant domestic borrowing to finance a government deficit. The public sector was increasingly relied upon to allocate credit. Economic reforms were embarked upon in the late 1980s and early 1990s. As the CFA Franc became significantly overvalued, The Gambia captured enormous rents by acting as an entrepot intermediary, re-exporting goods into neighboring Senegal. With the devaluation of the CFAF in January 1994, that source of income was cut off and the threat to Gambia's revenues helped to create the unstable conditions which led to a military coup later in 1994. Tourism receipts and declines in donor aid contributed to further economic deterioration. Fiscal deficits peaked in 1995/96, and their financing via domestic credit doubled debt to a level of 29 percent of GDP by 1999.

To regain fiscal control, revenue enhancement has been emphasized, with stricter pre-shipment inspection, improvements in tax administration, and increases in fees for government services. However, with the increased cost of issuing CBG bills (the CBG auctions and discounts treasury bills and its own CBG bills) for liquidity management purposes, the transfer of profits from the CBG to the treasury has been smaller than expected. Interest rates, kept high during the late 1990s because of tight monetary policy to maintain low inflation, have moderated somewhat more recently. The treasury bill rate has fallen from 16 percent in August 1998 to 12 percent in March 2000.

In the late 1990s, Gambia's currency, the Dalasi, became overvalued, witnessed by an increase in the spread between interbank and parallel market rates, from 2.9 percent in 1998 to 5.5 percent in 1999. The interbank rate did not adjust quickly enough in reaction to the appreciating U.S. Dollar. Today, independent foreign exchange bureaus manage the market for foreign exchange, and the CBG encourages commercial banks to deal directly with them to access foreign exchange. During the first quarter of 2001, the CBG attempted to meet pent-up demand for foreign exchange in the interbank market using competitive bids, resulting in a significant reduction in the spread between interbank and parallel rates.

Commercial Banking

The IMF reported in 2000 that the commercial banking system was generally sound. Non-performing loans, which represented 26 percent of the total banking sector portfolio in March 1998, fell to 15 percent of the same by March 2000. All banks have met capital adequacy (8 percent) and liquid asset (30 percent) ratios.

The largest commercial bank is Standard Chartered Bank Gambia, which is incorporated locally, with branches in Banjul, Bakau, Serrekunda, and Basse. The parent U.K. company holds 75 percent and Gambian shareholders 25 percent. The Gambia Commercial and Development Bank was wholly owned by the government but has now been sold to private interests. The other commercial bank, the International Bank for Commerce and Industry, is also privately owned. A new development bank, the Arab Gambian Islamic Bank, opened in Banjul in January 1998.

In October 1997 the Trust Bank of The Gambia, in which the government is majority shareholder, took over the state-owned Meridien Bank, formerly the Gambian branch of the collapsed *Banque Internationale pour l'Afrique Occidentale*. Trust Bank has been targeted for eventual privatization.

The IMF reported in 2000 that the health of Gambia's banking sector was sound. Although the government became a net debtor to the banking system in 1999, non-performing loans have decreased from 28 percent of their portfolio in March 1998 to 15 percent at the end of March 2000. All banks met the required capital adequacy ratio of 8 percent, and the liquid asset ratio requirement of 30 percent.

GHANA

Central Banking and Monetary Regime

The Bank of Ghana (BOG) manages monetary policy in Ghana. Whereas in its earlier years, the BOG was largely an advisory body, the 1992 Constitution provided for independent policy-making by the BOG, with an independent Governor. However, its mandate of independence is said to be in conflict with several other parts of the 1992 Bank of Ghana Law which call for the Bank to regulate credit and banking in accordance with the economic policy of the Government, to use monetary tools to promote currency stability, and to ensure effective maintenance and management of the country's external reserves (Jebuni et al. 2001). During the 1990s, monetary stability was threatened by large and persistent government budget deficits, which were financed by a combination of domestic and international borrowing, and money creation. Not unlike the pressures faced elsewhere in the region, Ghana's monetary policy is often subordinate to the government's fiscal needs.

As much as a third of Ghana's money supply is held in private hands outside of the formal banking system, according to a September 2001 release by the BOG's Deputy Governor.[16] The BOG is pushing commercial banks to intensify their campaign for mobilizing deposits to the banking system in order to mop up this excess liquidity, the existence of which makes monetary policy-making difficult.

Ghanaians may now hold foreign currency accounts in Ghana. The preponderance of foreign exchange (Forex) bureaus in the country has eased the cost of foreign currency transactions. However, with increasing risk and uncertainty regarding inflation and the value of the cedi during the 1990s, the dollar became increasingly used as a unit of account and a medium of exchange (Stryker 1997).

[16] Reported by the Accra Mail and distributed by www.allafrica.com, September 2001.

Commercial Banking

Ghana’s financial sector is dominated by the formal banking system, which accounts for over 80 percent of total financial assets. The country’s banking and financial institutions consist of the Bank of Ghana (BOG) (the central bank), 17 deposit money banks (DMBs) including the Agricultural Development Bank, and 132 rural/community unit banks. The DMBs had a total of 315 branches in March 1998. However, this branch network was biased in favor of the urbanized southern regions. Greater Accra alone accounted for 30 percent of the total number of bank branches, while the three northern regions (Northern, Upper West and Upper East) together had just 9 percent of total branches.

The rural sector’s share of total formal credit was a mere 8 percent in 1999. While a vibrant informal financial exists in Ghana, there is little integration with the formal sector, and donor activity within rural/informal/micro sectors has been fairly uncoordinated. Supervision of this sector falls to the Bank of Ghana. However, its task is complicated by the large number, isolation, and geographic dispersion of the 111 rural banks in Ghana. The World Bank’s Rural Financial Services Project seeks to broaden and deepen financial intermediation in rural areas by addressing some of these concerns.

Credit extension by DMBs is primarily focused on manufacturing and commerce, with agriculture in third place in 1998. The Agricultural Development Bank (ADB) is the only DMB with a strong emphasis on the agricultural sector, which accounts for 70 percent of its loan portfolio.

Two successive financial sector adjustment programs (1988-98) supported by the World Bank have helped restructure the DMBs. The reform programs included improvement of banking legislation and supervision, deregulation of administered interest rate structure and credit allocation, removal of subsidized lending rates of interest on credit to “priority” sectors, deregulation of foreign exchange market, establishment of a non-performing assets recovery trust, and privatization of state-owned banks. Before deregulation of administered credit quotas, commercial banks were required to allocate at least 20 percent of their total credit to the agricultural sector. After the liberalization of this requirement, their credit to the agricultural sector has dropped sharply, from 31 percent of total lending in 1983, to less than 13 percent in 1998.

In addition to formal institutions, mainly the branches of the ADB and rural banks (RBs), the rural financial sector in Ghana consists of informal institutions such as susu collectors, individuals who mobilize short-term savings; susu groups, which are rotating savings and credit groups; and traders and moneylenders. There are also some providers of semi-formal financial services. These consist of savings and credit cooperatives, also known as credit unions, some agricultural cooperatives, and a few non-governmental organizations (NGOs) involved in rural microfinance.

Financial services have improved in recent years, with the introduction of a new stock market, the Ghana Stock Exchange (GSE), and several new financial institutions (see next section below). Improvements began with the financial sector adjustment programmed of 1989, under which the banking sector was forced to clean up its balance sheets and the government took over bad loans. A new law prescribed minimum capital requirements and capital adequacy ratios, and improved the regulatory and supervisory framework. In December, 1998 the sector's assets (including the Bank of Ghana), totaled C5.6trn (US$2.2bn) up from C4.6trn in December 1997 and C3trn in December 1996. Four institutions, Ghana Commercial Bank (GCB, the country's largest), Standard Chartered Bank, Social Security Bank (SSB), and Barclays, accounted for around 58 percent of these assets.

Since 1992, privatization and the arrival of four new commercial banks have brought increased dynamism to the sector. The four new commercial banks are Trust Bank, Prudential Bank, International Commercial Bank, and Metropolitan and Allied Bank. Merchant banking has also expanded in recent years, and four players now compete for business. Merchant Bank Ghana, Ecobank Ghana, and CAL Merchant Bank are well established, while First Atlantic Merchant Bank, the most recent arrival, opened for business in 1996.

The government has sold off equity in several wholly or partly state-owned banks. After some difficulty finding an active investor for SSB, a consortium of fund managers, led by a UK-based company, Blakeney Asset Management, built up a controlling 51 percent stake in 1997 and hired a technical partner, Allied Irish Bank, to enhance SSB's management and services. GCB's privatization had a promising start in February 1996, when the initial public offering (IPO) was heavily oversubscribed, but the bank has since run into serious management difficulties. The government still plans to sell off at least two more institutions, the National Investment Bank and Agricultural Development Bank. Both were founded as development banks but now operate more as commercial banks.

Competition has brought benefits. Commercial banks have introduced many new products, including ATMs and credit-card services, and have improved the turnaround time for check clearing and cashing. However, the banks have a limited appetite for lending to small and medium-sized local businesses, which has caused some local resentment. This situation has been exacerbated by government issues of low-risk high-yielding debt, which has produced a safe avenue for bank investments, accommodating risk-averse lending policies. The government is expected to reduce its domestic borrowing in coming years, suggesting that banks may have to build up stronger relations with local private clients. Nevertheless, margins in the retail-banking sector between lending and deposit rates have remained wide, averaging over 10 percent in recent years. In contrast, tough competition has driven merchant banks' margins down to around 4 percent.

Non-bank Financial Institutions

The non-bank financial sector in Ghana is growing and diversifying, although it remains relatively small. In 1993, the Government of Ghana enacted the Non-bank Financial Institutions Law to create an alternative financial market that would serve those without access to traditional financial institutions. Persistent regulatory weaknesses included limitations in the frequency of deposits, a low minimum capital requirement, high reserve ratio requirements, and an inappropriate reporting format (Ledgerwood 1998, p. 26). In 1996, it was estimated that the NBFI sector contributed about 24 percent of the country’s total financial assets, with 11 percent in the Social Security and National Insurance Trust and 4 percent on the Ghana Stock Exchange. A World Bank Non-Bank Financial Institutions Technical Assistance Credit was prepared in 1996 to strengthen this sector.

In the area of securities and capital markets, Ghana has two discount houses: Consolidated Discount House (CDH), established in 1987, and the Securities Discount Company (SDC), which followed in 1991. Since the GSE's opening, several stockbrokers have set up shop, and legislation introduced in 1999 will open the way for unit trusts and more varied financial instruments. Databank Ghana operates as an investment bank, providing financial advisory and stock brokerage services.

There are now 17 insurance companies, compared with fewer than ten in 1993, although the industry remains dominated by two state firms. The government is preparing one of them, State Insurance Corporation, for privatization. The Ghana Reinsurance Organization was also to be divested at the end of the 1990s by government interests. Ghana also has mortgage companies, including the Home Finance Company; building societies; at least one venture capital company; and three leasing companies.

As in many other developing countries, the financial system in Ghana at the end of the 1980s consisted essentially of the banking sector, with most banks owned by the state. The presence of a stock exchange was seen as a vehicle for increasing the possibilities for portfolio diversification, therefore raising financial savings and contributing to capital formation. The stock exchange was also seen as a way to accelerate the privatization program by creating a mechanism through which Ghanaian investors could participate in the ownership of large enterprises. Through the 1990s, investment in Ghana as a share of GDP has steadily risen, from 14.4 percent in 1990 to over 23 percent in 1999.

Table 7. Ghana Stock Exchange Market Capitalization (as of August 17, 2001)

Sector/Company	Billion cedi	
Banks		
Ghana Commercial Bank	255.75	7%
SSB Bank	163.88	4%
Standard Chartered Bank	369.52	10%
Breweries		
Accra Brewery	52.38	1%
Ghana Breweries	37.59	1%
Guinness Ghana	105.73	3%
Consumer goods		
Paterson Zochonis	17.92	0%
Super Paper Products	5.77	0%
Unilever Ghana	114.06	3%
Distribution & trading		
CFAO Ghana	3.36	0%
Mechanical Lloyd	5.21	0%
Mobil Ghana	81	2%
Produce Buying Company	216	6%

Sector/Company	Billion cedi	
Food & tobacco		
British American Tobacco	38.02	1%
Fan Milk	19.78	1%
Manufacturing		
Aluworks	179.22	5%
Camelot Ghana	2.78	0%
Metalloplastica Ghana	4.32	0%
Pioneer Aluminium	9.9	0%
Mining companies		
Ashanti Goldfields	2,088.62	54%
NGOs		
Enterprise Insurance	14.45	0%
Home Finance	54.27	1%
Total	3839.53	100%

SOURCE: http://www.newafrica.com/stockexchange/ghana/

The Ghana Stock Exchange was incorporated in November 1990 as part of the structural reforms initiated in the mid-1980s. According to Ghana's securities industries law, it is overseen and regulated by a Securities Regulatory Commission (SRC). The Ghana Stock Exchange began trading in corporate equities, bonds, and government securities in 1990. The GSE has no shareholders but is incorporated as a public company limited by guarantee. It is governed by a council comprising representatives from the licensed dealing members, listed companies, banks, insurance companies, money market participants, and the general public. The GSE includes 22 listed companies, and as of August 2001 had a market capitalization of about U.S. $540 million, dominated by Ashanti Goldfields Company (AGC) (see Table 7). AGC accounts for about 54 percent of total market capitalization, though its shares are mostly traded on other exchanges. The three firms of the banking sector represent another 21 percent of capitalization.

Since its establishment, the GSE's performance has varied considerably. In 1993, the GSE was the sixth-best performer among emerging markets with a capital appreciation of 116 percent. The following year the GSE was the best performing stock market among all emerging markets, as its index rose by 124 percent. Market capitalization increased markedly owing to the flotation of Ashanti Goldfields Company and the government's sale of 20 percent of its then 55 percent stake in the company, and sizeable stakes in six other companies. The well-publicized AGC divestment stimulated foreign and local interest in other Ghanaian equities. Despite more (albeit smaller) privatizations in 1995 and 1996, poor economic fundamentals (high inflation and interest rates) undermined the attractiveness of the GSE and its index only increased by 6.3 percent in 1995.

There was progressively stronger growth over the next three years, with the GSE index increasing by 70 percent in 1998, making it the best-performing market in Africa. Dynamism returned in 1997, when the falling rate of inflation and the government's post-election efforts to restore fiscal stability tempted some investors back to the GSE. Enthusiasm was maintained during

1998, and the domestic share index rose by 69 percent, or 63 percent in U.S. dollar terms, making it the best performing market in Africa that year. In 1999 the macroeconomic environment deteriorated again and the market soured, falling by 15 percent in local currency terms or 42 percent in U.S. dollar terms, its worst year ever.

The GSE has progressively strengthened its facilities for businesses and government to raise long-term capital as well as for investors to obtain liquidity, reasonable capital safety, and diversity of investments. Even though it is still a relatively young stock exchange, it is progressing faster than most African stock exchanges and is receiving significant attention by international media.

Despite some significant achievements (liberalization of exchange controls, contribution to successful privatization of enterprises, etc.), the GSE remains fairly illiquid, like many other African markets. In 1998, the turnover rate was just 4 percent, the value of traded shares was up by 47 percent from the previous year, but it is mainly reflected higher share prices while volume traded declined by 25 percent.

Microfinance Institutions

Ghana has the infrastructure to sustain a viable microfinance sector. World Bank projects have provided institution-building support and have worked towards preparing a general strategy and an appropriate legal/regulatory framework for the microfinance sector (World Bank 1998). Existing MFIs include a long-standing program run by the non-governmental organization TechnoServe since 1971, the goal of which is to help communities develop effective, group-owned enterprises. Nsoatreman Rural Bank (NRB) was established in 1984 to provide financial intermediation and poverty alleviation in the Brong-Ahafo region of Ghana. The bank serves community members by providing lending, savings, other financial services, and non-financial services (through a subsidiary), which includes the supply of agricultural inputs to farmers and farm extension services. (Owusu Ansah 1999)

GUINEA

Central Banking and Monetary Regime

Prior to 1999, Guinea's foreign exchange market was highly segmented. The official market was dominated by state enterprises, the donor community, and large importers, while the parallel market serviced all other customers. By early 1999 the spread between the official and parallel rates widened to the point (as much as a 15 percent in late 1998) that the latter accounted for as much as 60-70 percent of the foreign exchange market. Unification of the market for foreign exchange occurred in September 1999, when a central bank-managed auction for foreign exchange was introduced. As a result, the Guinean franc has depreciated substantially, and the spread between the two rates has diminished. As of March 2000, the IMF was reporting that the currency auction "represents an improvement over the situation before the auction system was instituted, but it involves a multiple currency practice arising from the contemporaneous application of the official rate and commercial bank rates."

Commercial Banking

Guinea's financial system consists of the *Banque centrale de la République de Guinée* (*BCRG*, the central bank), seven deposit-taking banks, four insurance companies, a social security institution, two small co-operative banks, and some fifty or so foreign exchange shops (known as "*bureaux de change*" in French). Virtually all banking activity is concentrated in Conakry and there are only a dozen or so branches outside the capital. The banking system is progressively gaining public confidence, as demonstrated by the steady rise in demand deposits within the money supply. Two commercial banks, for whom restructuring agreements were signed in 1998, have been recapitalized by private shareholders and the government, and management restructuring is underway. Another four banks also observe prudential norms on solvency and asset quality. Only one bank has been in serious trouble (and was shut down in 1997). Ninety-six percent of its deposits have been reimbursed with government funds. The central bank is also working to improve bank supervision in line with the Basel Committee on Banking Supervision guidelines.

Interest rate controls were lifted as part of monetary reforms in 1993, which also reinforced bank supervision. Banks may set lending and deposit rates subject to a maximum spread around the Treasury-bill rate. Short- term loans accounted for 83 percent of the Gnf210bn (US$170m) credit distributed to the private sector in 1998, and 55 percent went to trading activities. The increasing funding needs of mining companies, coupled with growing confidence in the banking system, resulted in a sizeable increase in medium-term lending, which rose to Gnf33bn in 1998, compared with Gnf20bn the previous year. According to a World Bank "Findings" Note written in 1998,

> Guinea is home to three of Africa's largest—in terms of clients and country coverage—microfinance institutions and credit unions. Crédit Rural and Crédit Mutuel have total savers and borrowers which exceed 100,000 and PRIDE, a microfinance NGO, has 14,000 borrowers. Crédit Rural and PRIDE are also strong institutions, with excellent credit discipline among their clients and with on-time repayment rates of about 98%. Crédit Mutuel is a large institution which has experienced serious problems because of weak internal controls. This institution is being recapitalized and is strengthening management, controls, and client discipline.

Microfinance Institutions

Three of the largest MFIs and credit unions in Africa, in terms of clients and country coverage, are based in Guinea. *Crédit Rural* and *Crédit Mutuel* serve over 100,000 people. Another MFI, PRIDE, serves 14,000. *Crédit Rural* and PRIDE have performed well and have on-time repayment rates of about 98 percent. In contrast, because of weak internal controls, *Crédit Mutuel* has experienced significant problems. As a result, *Crédit Mutuel* participated in a Learning Innovation Loan in collaboration with the French *Caisse de Développement* and Canadian International Development Agency, the objectives of which included developing a suitable regulatory framework to foster microfinance development; developing a performance based institution building program, and having stronger MFIs provide line of credit support to assist in expanding outreach (World Bank 1998).

LIBERIA

Central Banking and Monetary Regime

According to a 1998 presidential banking commission, Liberia's former central bank, the National Bank of Liberia, was “ineffective, inefficient and insolvent.” The central bank was blamed for the pre-war credit expansion, which fuelled government consumption at the expense of the private sector. The commission's report found that since its establishment in 1974 only US$1m of the authorized capital of US$5m had been paid up and that by 1998 the bank's assets/capital ratio had reached 89:1. By international standards the minimum assets/capital ratio should be around 20:1.

Established in November 1999, the new central bank, the Central Bank of Liberia (CBL), was adequately capitalized in March 2000, through the issuance by government of a US$5 million negotiable, interest-bearing note. However, as of September 2000, Liberia’s monetary policy framework was still incomplete. This was immediately followed by a currency exchange of old Liberty and JJ Roberts banknotes for new Liberian dollars. The IMF noted in September 2000 that the rate of exchange had stabilized in the range of L$41-42 to the U.S. dollar. Both commercial banks now have current accounts open with the CBL. Banking supervision by the CBL is being carefully monitored by the IMF.

Liberia has joined with five other ECOWAS nations under the Accra Declaration to establish a second regional monetary zone.

Commercial Banking

In April 2000, the IMF reported that Liberia’s banking sector was made up of just five commercial banks, down from 14 prior to the civil war.

The banking system continues to face sizable structural problems, including a substantial level of non-performing assets, an unfavorable legal and institutional environment for lending, and depressed economic activity. At end of 1998, 78 percent of the commercial banks’ loans were classified as non-performing. In April 2000, the CBL suspended the operations and seized possession of a leading commercial bank, Liberia United Bank Incorporated (LUBI), owing to liquidity problems and "deep insolvency".

Provisional balance sheets for the commercial banks and the central bank were compiled for the first time in ten years in December 1999. These tentative data should be viewed with caution as a number of reporting inconsistencies remain. Average lending rates fell to 17 percent at end-October 1999 from 26 percent at end-March 1998, while deposit rates have remained at 6 percent since 1995.

NIGERIA

Central Banking and Monetary Regime

The Central Bank of Nigeria has had a difficult time managing the country’s foreign exchange regime. Fixed official rates, rationing, and auctions have each been tried. In late 1998, a multi-tiered exchange rate regime existed, with one overvalued rate available to government/petroleum exchanges and parallel rates available for everything else. The CBN issues monetary and fiscal policy guidelines. In 2001 it approved the diversification of Nigeria's banks into broader services, including stockbroking, a move which is hoped to deepen Nigeria's capital market.

Commercial Banking

Nigeria's banking sector has been characterized by a rapid increase in the number of banks. At the end of 1997, they totaled 115 (64 commercial banks and 51 merchant banks), compared with a combined total of 41 in 1985. Corporateinformation.com reports that there are 90 banks in Nigeria today, 33 merchant banks, and over one thousand community banks in 2000. The rapid expansion came in the late 1980s and was triggered by the quick and easy profits made from foreign-exchange arbitrage. The main clearing banks are the United Bank for Africa, the Union Bank of Nigeria (formerly Barclays Bank Nigeria) and First Bank of Nigeria. In September 2001, the Lagos newspaper *Vanguard* reported that about fifty banks are under serious Central Bank surveillance in order to avoid a new round of bank distress, such as the one which hit Nigeria in the 1990s.

The rapid growth of the sector has given rise to serious concerns about the capacity of the regulatory authorities properly to supervise the industry. Many banks experienced deep problems because of poor management, under-capitalization and dwindling foreign exchange business. However, some reforms introduced by the Central Bank of Nigeria (CBN) to strengthen capital bases, control lending, and provide for bad loans have begun to pay off. In 1997, 47 banks were classified as distressed, compared with 52 in 1996. To improve the financial base of the country's banks, minimum paid-up capital requirement was raised to N500m ($5.9m) in January 1997, from N40m for merchant banks and N50m for commercial banks fixed in 1991. Banks had up until December 1998 to meet the requirement. New services for consumers, such as debit cards, are being introduced into the financial system.

Non-bank Financial Institutions

An embargo imposed in 1991 on the issue of new banking licenses remains in place in Nigeria, and helps to explain the sharp rise in the number of non-bank financial institutions, such as community banks, foreign exchange bureaus, and mortgage banks.

Nigeria possesses a stock exchange with six branches (in Lagos, Kaduna, Port Harcourt, Kano, Ibadan and Onitsha) and 264 listed securities in 1997. A new exchange has just been opened (2001) in Abuja. Market activity has been generally sluggish over the years, reflecting the public sector's dominance of the economy. Market capitalization fell marginally from N285.6bn ($3.5bn) in 1996 to N282bn at end-1997, after reaching N374bn in June 1997 on the back of lower interest rates and short-lived optimism about the economy. In dollar terms, however, the capitalization of the Nigerian Stock Exchange is still dwarfed by its equivalent in Johannesburg, and is smaller than that in Kenya. The volume of transactions has been boosted by some privatizations, several rights issues (as tighter lending controls have forced companies to find additional ways of raising capital) and by a debt-conversion program in operation since 1989.

Regulations concerning the foreign ownership of Nigerian ventures in all sectors except banking, insurance and the oil sector were relaxed in 1995, including the removal of the cap on foreign portfolio investment. However, this has not yet resulted in the hoped-for boost in foreign portfolio investment, which fell to $9.4m in 1997 from $33m in 1996. In early 1997 the promise of faster economic growth contributed to a positive sentiment that saw the all-share index rise to 8,809 in April, from 6,992 at the close of 1996. However, market disappointment at shrinking company profits and continued sluggish economic growth led to a slump, with the index closing at 6,441 at the end of 1997. In 1998, the index fell further, reaching 5,683 in October. Some 1.3bn shares worth N11.1bn ($132m) were traded in 1997, compared with the 882m shares worth N7.1bn that changed hands in 1996. The exchange is still over-regulated; although in April 1995 the ceiling on daily share price movements was doubled to 20 kobo and in 1996, the settlement period was reduced to one week. Computerized central securities clearing system was installed in April 1997, with the aim of attracting foreign investors.

The National Insurance Commission has reportedly approved the closure of fourteen ailing insurance companies and an unspecified number of mortgage banks for not shoring up their capital bases as required by law (*The Guardian,* September 10, 2001). A further 118 insurance companies have complied at different levels of capitalization, and were issued certificates of solvency. Primary mortgage institutions were also directed by the CBN in 1999 to raise their share capital, and were given two years to comply with the directive. Of the 293 primary mortgage firms licensed to operate in Nigeria, 98 have had their mortgage licenses revoked by the CBN, and 137 have folded.

SIERRA LEONE

Central Banking and Monetary Regime

The anarchic situation in Sierra Leone following the May 1997 coup resulted in the collapse of the formal financial system, following the destruction of the Bank of Sierra Leone (the central bank), and the suspension of international financial inflows.

Commercial Banking

Barclays Bank and Standard Chartered Bank, which together accounted for about 80 percent of the domestic market, closed their doors until Mr. Kabbah was restored to power and have since compensated investors.

Before the coup, many banks had closed their regional branches because of the poor security situation, and there was a steady stream of media allegations-against the central bank governor in particular-regarding corruption and embezzlement. At the same time, the long-standing weakness of the central bank caused rapid money supply. While the central bank tightened its monetary policy during 1996, helping to bring the rate of inflation under control, there was still excess liquidity in the banking sector with low demand for bank credit.

Outside the Regional Schemes—Cape Verde

CENTRAL BANKING AND MONETARY REGIME

In 1998 Cape Verde launched its structural adjustment program (SAP), supported by the World Bank. Its goal was to maintain internal and external equilibria in the economy and to support and strengthen the private sector. Specific actions included privatizing 27 state-owned enterprises, removing quantitative import restrictions, and creating a social emergency fund.

As part of the SAP, the central bank, Bank of Cape Verde (BCV), became more independent and a regulatory system was established. The system included redefining the risk categories of and tightening the prudential reserve requirements for credits granted to households and private enterprises. The BCV also insisted on rescheduling agreements with defaulted debtors, which led to a sharp decline in domestic banks' non-performing loans. Although the commercial banks were privatized, the government retains minority equity shares.

In 1998, the government also adopted a new foreign exchange law, liberalizing current-account transactions and switching from a basket to a single-currency peg. The Cape Verdean escudo is pegged to the euro, with the support of Portugal. This explains why Cape Verde has not sought membership in either WAEMU or the Accra Declaration group. The new foreign exchange policies forced the central bank to focus on improving the banking system's "net foreign asset" position.

Following the tightening of monetary policies in the latter half of 1998, net foreign assets of the banking system increased. Also, the foreign exchange queue, which had been increasing since the end of 1995, was significantly reduced and central bank reserves increased. The slowdown in money growth, from 12.1 percent in 1997 to 1.8 percent in 1998, led to a reduction in inflation and a depreciation of the real exchange rate. Also, following implementation of the foreign exchange law in 1998, all restrictions on both capital and current account restrictions were removed, permitting residents to hold foreign exchange accounts.

COMMERCIAL BANKING

Independent commercial banks were created out of the Bank of Cape Verde and the national post office's banking facility. Telecommunications infrastructure investments and the development of reliable, centralized accounting systems have encouraged the creation of electronic network-and-payment systems among the banks. Following the establishment of electronic clearing systems between commercial banks and the BCV, debit and credit cards were introduced in the country in 1999. Also as of January, 1999, the banking system was integrated into the Society for Worldwide

Interbank Financial Telecommunication (SWIFT).[17] Today, commercial banks in Cape Verde include:

- The Banco Comercial do Atlantico (BCA)
- The Caixa Económica de Cabo Verde (CECV)

Savings institutions in Cape Verde include:

- The Fundo de Solidariedade Nacional (FSN) – channel public investment.
- Instituto Caboverdiano de Solidariedade (ICS) – handles international aid.

Two foreign banks, *Banco Totta e Acores* and *Caixa Geral de Depositos*, opened branches in Sao Tiago and Sao Vicente and intend to expand further. These banks helped improve relations with Cape Verde's extensive émigré community. Émigré deposits, which reduce banks' dependence on the central bank for foreign exchange, increased by 9.3 percent in 1998.

NON-BANK FINANCIAL INSTITUTIONS

The government has been able to offer new financial instruments including tax-free government bonds and high-yield savings accounts. Also, a stock exchange opened in Praia in April 1999.

[17] Launched in 1973, SWIFT is an industry owned co-operative supplying secure messaging services and interface software to over 7,000 financial institutions in 194 countries. See www.swift.com.

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